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CREDIT OPINION
11 June 2021

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Idaho (State of)

Update to credit analysis

Summary

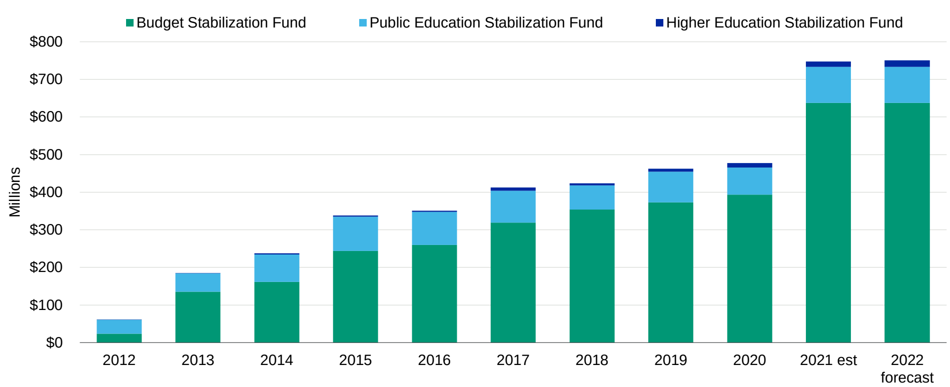
The State of Idaho's (Aa1 stable) credit profile is supported by a history of conservative financial management that has resulted in strong liquidity and growing fund balances, a rapidly-growing economy, and a very low debt burden. These strengths are somewhat balanced by below-average socioeconomics and moderate economic concentration that leads to above-average economic and revenue volatility. However, the economy is benefitting from very strong in-migration and overall growth that has contributed to some diversification and rapid recovery during the pandemic.

Idaho is also an annual cash flow note borrower, with a strong short-term credit profile (Tax Anticipation Notes, Series 2021 rated MIG 1) reflecting the strong underlying credit quality, ample liquidity afforded by resources available from other state funds, and solid projected coverage of TAN principal at maturity.

Exhibit 1

Idaho's strong financial management and economic growth have lead to increased reserves

Budget-basis reserve funds



Source: Idaho budget documents and officials statements

Credit strengths

» History of strong liquidity and solid GAAP fund balances

» State debt levels and fixed costs well below the 50-state medians

» Diversifying, growing economy supported by above-average population growth

» Sound financial management and conservative budgeting

Credit challenges

» Below average socio-economic indicators

» Concentration in more economically sensitive agriculture and technology sectors

» Variability of corporate and individual income tax receipts

Rating outlook

The stable outlook reflects the expectation that strong economic growth and conservative fiscal management will support continued recovery from the pandemic, structurally balanced financial performance and solid, stable reserves.

Factors that could lead to an upgrade

» Continued long term economic growth that further diversifies the economy

» Maintenance of reserves that are sufficient to offset above-average revenue volatility

» Maintenance of structural balance in state finances and limited reliance on non-recurring revenue sources

Factors that could lead to a downgrade

» Significant economic slowing resulting in weaker revenue performance that severely strains state finances

» A shift away from the state's trend of well managed financial operations

Key indicators

Exhibit 2

Idaho (State of)	2016	2017	2018	2019	2020	50-State Median (2019)
Operating Fund Revenues (000s)	$3,633,103	$3,859,436	$4,254,647	$4,254,658	$4,577,810	$12,439,906
Available Balances as % of Operating Fund Revenues	17.5%	19.0%	20.5%	19.8%	22.2%	9.1%
Nominal GDP (billions)	$69.1	$73.3	$79.1	$83.7	$84.0	$250.6
Nominal GDP Growth	4.5%	6.1%	7.9%	5.8%	0.4%	3.6%
Total Non-Farm Employment Growth	3.4%	3.0%	3.3%	2.9%	-0.7%	0.9%
Fixed Costs as % of Own-Source Revenue	3.4%	3.3%	2.9%	3.1%	3.1%	7.8%
Adjusted Net Pension Liabilities (000s)	$1,843,160	$2,768,296	$2,580,465	$2,237,549	$2,724,388	$11,258,253
Net Tax-Supported Debt (000s)	$712,929	$827,014	$887,570	$964,509	$895,239	$3,864,531
(Adjusted Net Pension Liability + Net Tax-Supported Debt) / GDP	3.7%	4.9%	4.4%	3.8%	4.3%	6.9%

Source: Idaho CAFRs; Moody's Investors Service; US Bureau of Labor Statistics; US Bureau of Economic Analysis

Profile

Idaho is the 39th-largest state, with a population of 1.8 million. It had a gross domestic product of $74.1 billion as of December 2020, which ranks 41st in the US, and per-capita income of $48,616.

Detailed credit considerations

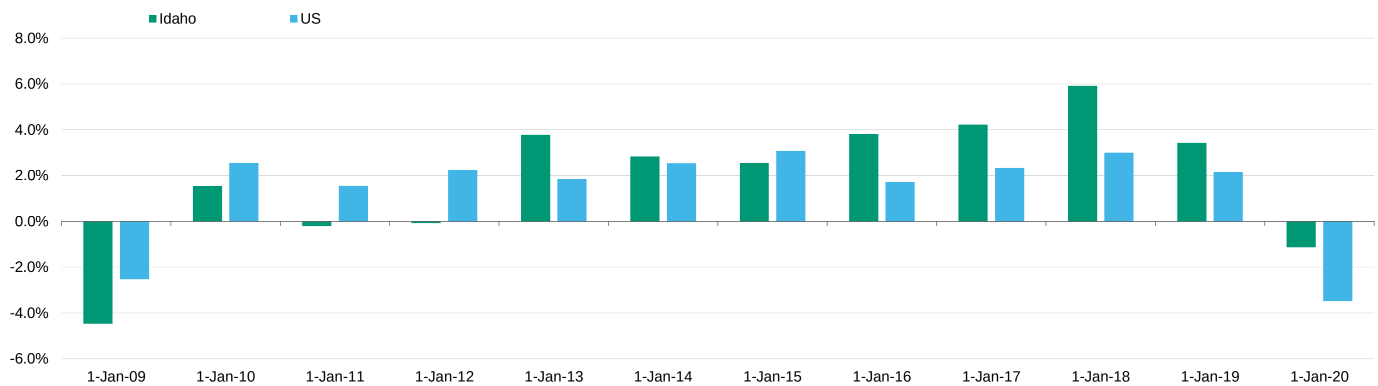
Economy

Idaho's economy outperformed the US through the coronavirus-driven recession and positive net migration and population growth will support a strong recovery and continued expansion over the next 1-2 years. However, Idaho's per capita personal income remains below-average despite its economic expansion. In addition, the state's economy is somewhat concentrated in the technology and agriculture sectors, which has contributed to above-average volatility in prior recessions (see Exhibit 2). Idaho has a growing technology sector, including the state's second largest employer Micron Technology, Inc. (Baa3 stable), and agriculture contributes 5.2% of the state's 2020 GDP, compared to 1% of the U.S.

Exhibit 3

Idaho's economy outperformed through the pandemic, but is historically more sensitive than U.S.

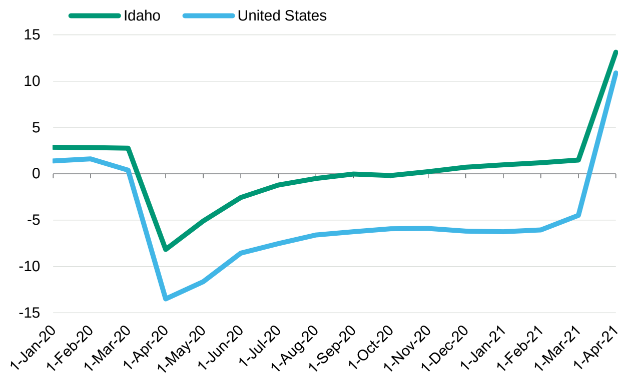
YOY GDP Growth



Source: US Bureau of Economic Analysis

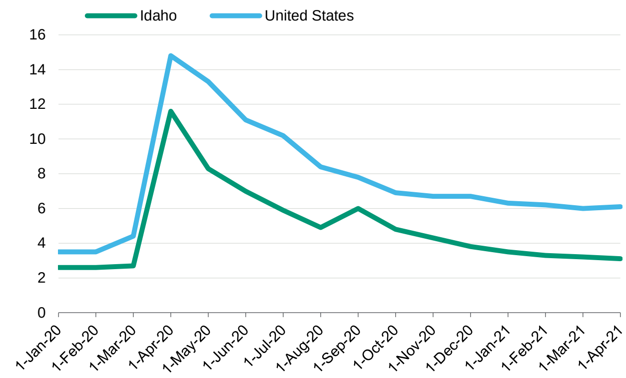
Idaho's job market was relatively resilient through the pandemic, with fewer job losses than the US, quicker recovery, and a more stable labor force. From February 2020 through April 2020, Idaho lost 10.3% of its total non-farm jobs, compared to 14.7% for the US, and the state's total non-farm jobs already exceed their pre-pandemic levels. Through April 2021, Idaho has recovered 114% of jobs lost during the pandemic, compared to a 63% recovery for the US. As a result, Idaho's unemployment rate has returned to a low 3.1% in April 2021, compared to 5.5% for the US, and a pandemic peak of 11.6%. Employment growth in health care and educational services and construction have been leading the recovery, while leisure and hospitality jobs remain more than 10% below pre-COVID levels.

Exhibit 4
Idaho's job losses were less severe than US, and recovered earlier
YOY % change in monthly non-farm employment



Source: US Bureau of Labor Statistics

Exhibit 5
Recent job gains have supported low unemployment despite continued labor force growth
Monthly unemployment rate



Source: US Bureau of Labor Statistics

While the US saw 13 consecutive months of year-over-year labor force declines during the pandemic, Idaho's labor force growth continued and reached 2.7% in April 2021. This is largely driven by Idaho's strong in-migration and accelerating population growth. Population growth increased to 2.1% in 2020 from 0.7% in 2012, and well above the 0.4% US growth rate. The state's labor market benefits in particular from high prime working age population growth, which was 2.2% in 2019 compared to 0.1% for the US.

Despite strong economic expansion, Idaho's average annual wage growth has matched the US, therefore the state's per capita wealth levels remain below average. Idaho's per capital personal income (PCPI) growth averaged 4.1% annually from 2015-2020, comparable to the U.S. average growth of 4.0%. As a result, PCPI is 81% of U.S. in 2020, up slightly from 79% during the Great Recession (2009) but down slightly from 82% in the preceeding decade.

Finances and liquidity

Idaho's financial performance will remain strong despite the pandemic-driven recession, due to the state's history of conservative budget management and quick recovery in economic and revenue growth. Due to the expected FY2021 surplus, the FY2022 budget includes several ongoing and one-time tax cuts and the state plans a significant deposit to its budget stabilization fund (BSF) to reach its new statutory target of 15% (up from 8%), effective July 1, 2021.

The state's revenues are $670.5 million (17.3%) above budget through May, and the state forecasts that year-end FY2021 taxes will be nearly 17% above FY2020. As a result, the state has raised its ending general fund cash balance forecast to $695 million (15% of revenues) from the original budget of $185.5 million (4% of revenues). This fund balance will provide additional flexibility in the event of any disruption in the pandemic recovery and as federal enhanced Medicaid funding ends at the end of 2021.

The strong revenue performance is related to income taxes and sales taxes, which are 24.5% and 7.7% above budget through May, respectively and together comprise 90% of total revenues.

The FY2022 general fund budget will increase 4% over the FY21 adopted budget to $4.2 billion, but be 3% below FY2021 actual expenditures due to spending funded with one-time federal stimulus aid. The budget is structurally balanced and incorporates conservative revenue growth assumptions. Budget growth relates to K-12 and higher education spending, which comprise 58% of the state's budget; rising Medicaid costs related to high enrollment and declining federal aid; and additional funding for the COVID health care response.

The revenue forecast incorporates baseline revenue growth of 3.5%, well below the state's recent pre-COVID history, slightly offset by an income tax cut, increased property tax relief to local governments, and an increase in the sales tax distribution to transportation purposes. In total, these changes will lead to $254 million of recurring revenue loss and $222 million of one-time revenue loss. The state increased its sales tax distribution to the Transportation Expansion and Congestion Mitigation (TECM) to 4.5% from 1% effective July 1, 2021, which will increase the transfer to $84 million in fiscal 2022.

The state's Tax Relief Fund will fund approximately $110 million of the recurring revenue loss and $180 million of the one-time revenue loss. The Tax Relief Fund is funded with sales taxes on internet sales which the state began collecting on July 1, 2019 and are available only for spending on tax relief programs. The Tax Relief Fund has benefited from the increase in online sales during the pandemic; the fund collected $106.5 million in FY2021 through April, a 43% over the same period in the prior year.

LIQUIDITY

After steadily replenished reserves that were significantly reduced during the recession, Idaho has strong liquidity and plans to further increase its budget stabilization fund (BSF) at the end of the fiscal year (ending 6/30). As of fiscal 2020, Idaho's GAAP basis available fund balances were $1 billion (22.2% of revenues), up from $288 million (9.8% of revenues) in fiscal 2012. The Budget Stabilization Fund balance (included in available fund balances) increased to $393 million in fiscal 2020 and is budgeted to increase to $637 million in fiscal 2021.

Due to the mismatch in timing of outflows versus inflows, Idaho is an annual tax anticipation note issuer. The state will be selling its $300 million Tax Anticipation Notes, Series 2021, the week of June 21 with an expected maturity on June 30, 2022. The TANS will be repaid with fourth quarter general fund revenues that will be deposited first into a note payment account until funds are sufficient to pay principal and interest on the TANs. Due to federal stimulus aid and strong liquidity, Idaho did not issue TAN in 2020, and has reduced its 2021 borrowing to $300 million from $550 million.

The state also has internal borrowable resources that provide operating liquidity during the year and are available to repay TANs if necessary. Borrowable cash resources are projected to be $9.1 billion at June 30, 2021, and $8.4 billion at June 30, 2022, providing 28x additional coverage for the notes.

Approximately 40% of the state's borrowable resources are comprised of the local government investment pool (LGIP), which the state would only borrow from as a last resort. Excluding the LGIP, all other projected fiscal 2022 borrowable resources are forecast at $5 billion, which includes the Budget Stabilization Fund ($637 million), the Public Education Stabilization Fund ($96 million) and the Higher Education Stabilization Fund ($17 million).

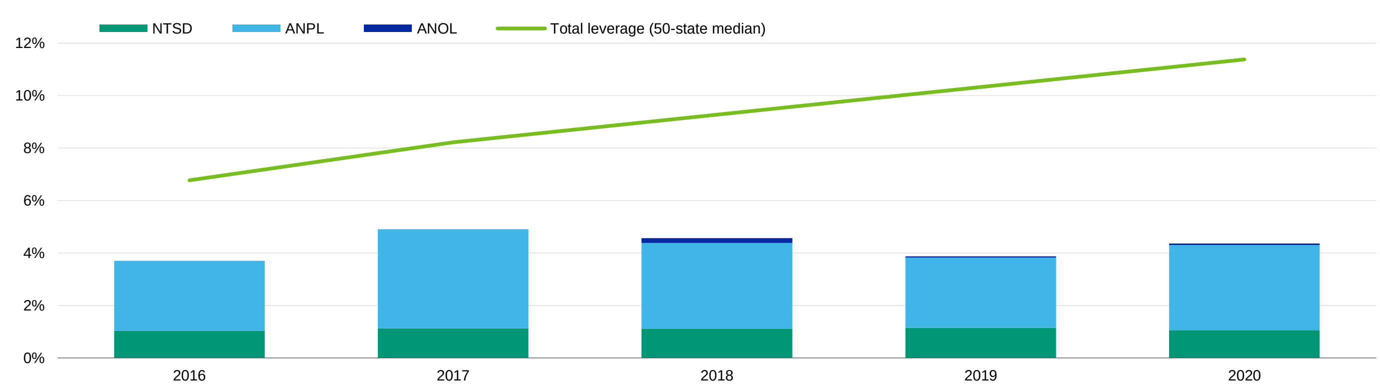
Debt and pensions

Idaho's overall leverage position will remain low despite plans to borrow $1.6 billion of transportation-related borrowing plans over the next 20 years and a large increase in the FY2021 pension liability.

In 2019 (the most recent available), Idaho ranked 37th for debt per capita, at $540 million compared with the 50-state median of $1,071 million. Idaho's debt as a share of personal income was a low 1.2%, below the 2.0% US median. When combined with its low adjusted net pension liability (ANPL) and low other post employment benefits (OPEB), Idaho's total long-term liabilities are well-below average; Idaho's total FY2019 liabilities were 4% of state GDP compared to a 50-state median of 7.9%.

Exhibit 6

Idaho's combined liabilities are well-below the 50-state median
Liabilities as a % of state GDP



Source: ID Comprehensive Annual Financial Reports; Moody's Investors Service

The state plans to borrow $1.6 billion for transportation projects over the next 20 years. The debt will be repaid with a the recent increase in the sales tax distribution to the TECM (discussed above). Given the state's rapid population growth and rising demand on infrastructure, it is likely that other borrowing programs will be authorized in the future.

DEBT STRUCTURE

The state's 2020 net tax-supported debt (NTSD) is conservatively structured and amounted to $895 million. NTSD includes $341 million of appropriation-backed debt (rated Aa2) issued by the Idaho State Building Authority and $536 million of GARVEEs (rated A2) issued by Idaho Housing & Finance Association on behalf of Idaho Department of Transportation. Idaho does not issue general obligation bonds, therefore their appropriation bonding program is an essential tool for financing capital projects.

DEBT-RELATED DERIVATIVES

The state has no outstanding variable rate debt or debt-related derivatives.

PENSIONS AND OPEB

Idaho's adjusted net pension liability (ANPL), our measure of the government's pension burden, was $2.7 billion in fiscal 2020, or 49% of own-source governmental revenues, and ranks 43rd in the U.S. The 50-state median ANPL to revenues was 80% in fiscal 2019. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities. The state's ANPL will increase up to 40% in FY2021 due to recognition of an asset loss and approval of a larger-than-normal cost of living increase, as governed by statute. Despite the increase, Idaho's combined liabilities will remain well-below the 50-state average and fixed costs will remain very affordable.

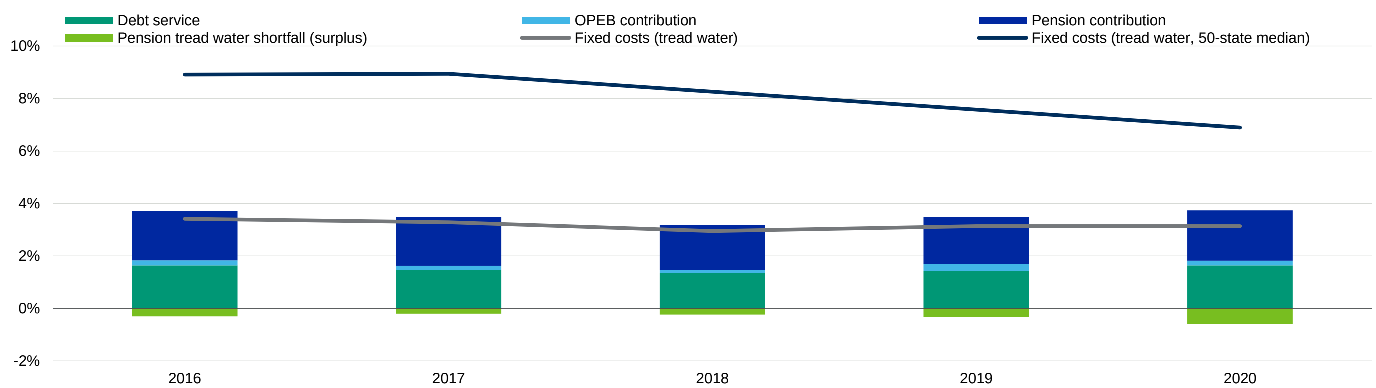
The state's combined debt service, pension treadwater, and OPEB contributions in fiscal 2020 were a very low 3.1% of own-source governmental revenues. The state contributed $107 million to its pension systems in fiscal 2020, which is more than the amount needed for the state's reported net pension liability to "tread water" assuming investment return and other actuarial assumptions are met for the year.

Idaho faces minimal costs associated with other post employment benefits, or OPEB. Based on GASB 75 data provided in fiscal 2020, our measure of the state's adjusted net OPEB obligation (ANOL) was $41.9 million, or 0.7% of own-source revenues. The 2019 50-state median was 16.7% of revenues.

Exhibit 7

Idaho's fixed costs are affordable

Fixed costs as % of own-source revenues



Source: ID Comprehensive Annual Financial Reports; Moody's Investors Service

Rating methodology and scorecard factors

The US States and Territories Rating Methodology includes a scorecard, which summarizes the 10 rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned. Idaho's Aa1 Issuer Rating is one notch lower than its scorecard outcome, because it incorporates an economy and revenue base that remains somewhat concentrated in more economically sensitive sectors as discussed in this Credit Opinion.

Exhibit 8

US states and territories rating methodology scorecard

State of Idaho

Rating Factors	Measure	Score
Factor 1: Economy (25%)		
a) Per Capita Income Relative to US Average [1]	81.4%	Aa
b) Nominal Gross Domestic Product ($ billions) [1]	$84.0	Aaa
Factor 2: Finances (30%)		
a) Structural Balance	Aa	Aa
b) Fixed Costs / State Own-Source Revenue [2]	3.1%	Aaa
c) Liquidity and Fund Balance	Aa	Aa
Factor 3: Governance (20%)		
a) Governance / Constitutional Framework	Aa	Aa
Factor 4: Debt and Pensions (25%)		
a) (Moody's ANPL + Net Tax-Supported Debt) / State GDP [2] [3]	4.3%	Aaa
Factors 5 - 10: Notching Factors [4]		
Adjustments Up: Growth Trend	0.5	
Adjustments Down: None	0	
Rating:		
a) Scorecard-Indicated Outcome		Aaa
b) Actual Rating Assigned		Aa1

[1] Economy measures are based on data from the most recent year available.
[2] Fixed costs and debt and pensions measures are based on data from the most recent debt and pensions medians report published by Moody's.
[3] ANPL stands for adjusted net pension liability.
[4] Notching factors 5-10 are specifically defined in the US States and Territories Rating Methodology.
Source: US Bureau of Economic Analysis, State CAFRs, Moody's Investors Service

ESG considerations

Idaho (State of)'s ESG Credit Impact Score is neutral-to-low CIS-2.

Exhibit 9

ESG Credit Impact Score

CIS-2

Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Idaho's ESG Credit Impact Score is neutral-to-low (**CIS-2**) reflecting its neutral-to-low exposure to environmental risks, neutral-to-low exposure to social risks and a positive governance profile.

Exhibit 10
ESG Issuer Profile Scores

ENVIRONMENTAL
E-2
Neutral-to-Low

SOCIAL
S-2
Neutral-to-Low

GOVERNANCE
G-1
Positive

Source: Moody's Investors Service

Environmental

Idaho's E issuer profile score is neutral-to-low (**E-2**). As a landlocked state, Idaho does not have any coastal counties. Nonetheless, Idaho is moderately exposed to severe storms and drought. According to data from Moody's affiliate Four Twenty Seven, Idaho's total average exposure to the projected increase in five climate risk factors ranks 40th of the 50 US states. However, among the individual climate factors, the state has a high risk of growing heat exposure.

Of the physical climate risks Four Twenty Seven evaluates, Idaho's highest exposure is water stress, specifically increasing risk of drought. Approximately 82% of the state's GDP (measured by county) has high or very high exposure to increasing drought risk. Increased frequency of droughts could drive down agricultural productivity and impact other industries including forestry, fishing and hunting, which together constitute 5.2% of the state's 2020 GDP.

Social

Idaho's S issuer profile score is neutral-to-low (**S-2**). Idaho's social risk profile is strengthened by strong demographic trends, especially in-migration and accelerating population growth, especially in the prime working age group that encourages job growth and a supportive age distribution (more above). In addition, income inequality is low, however average wealth levels, as measured by per capita personal income (PCPI) remains low relative to the nation. Another social risk in Idaho is its below-average educational attainment of people 25 and older. Approximately 29% of the population has a college degree or higher, compared to 33% for the US, which makes the state 32nd in the US.

Governance

We consider Idaho's governance to be strong, reflected in the state's positive G issuer profile score (**G-1**). Idaho's financial management has been aided by the states's flexibility to raise taxes and the executive's ability to rein in spending as needed. While the governor alone cannot reduce appropriations, the executive has the authority to reduce budgets in the form of spending hold-backs. Governor-implemented hold-backs have historically been accepted and ultimately approved by the state legislature.

The state has been quick to react in order to stabilize finances, both in terms of expenditure cuts and implementing tax increases. In addition, the state Division of Financial Management publishes a monthly update on revenue and economic trends. The treasurer's office manages state liquidity under strict investment guideline and annual formal review.

REPORT NUMBER 1289076

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